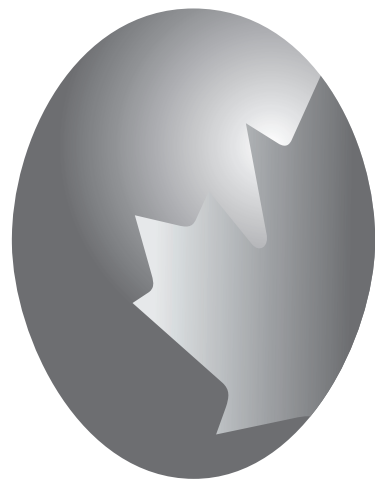


# **Canadian Hatching Egg Producers**

## **2008 Annual Report**



Canadian Hatching Egg Producers  
21 Florence Street  
Ottawa, ON K2P 0W6  
Tel: (613) 232-3023  
Fax: (613) 232-5241  
Email: [info@chep-poic.ca](mailto:info@chep-poic.ca)  
Web Site: <http://www.chep-poic.ca>

Chairman's Message .....	1
General Manager's Report.....	3
CHEP Mission Statement.....	7
CHEP Board of Directors.....	7
Canadian Hatching Egg Market Review.....	8
2007 Over and Under Production Situation .....	12
Report of the Canadian Broiler Hatching Egg Producers Association (CBHEPA) .....	13
Report of the Advisory Committee .....	15
Report of the Finance Committee .....	16
Report of the Research Committee .....	17
CHEP Alternates .....	18
Provincial Managers .....	18
CHEP Staff .....	18
Financial Statements December 31, 2008	





### A Year Mixed with Anxiety and Good News

Greetings fellow producers! I am very pleased to speak to you, for the second year in a row, as Chairman of our organization.

As the title of my report suggests, 2008 was a year filled with both anxiety and good news. And it's with the good news that I would like to begin.

At the start of the year our first piece of good news came with Saskatchewan's decision to join our organization. That agreement was signed in March and came into effect on the 13<sup>th</sup> of April. The second piece of good news was Alberta's return to the Agency, effective January 1, 2009.

You will agree with me that the addition of two provinces to our organization is excellent news. Today, our Agency comprises six member provinces and there are now only two hatching egg producing provinces in Canada which are not part of CHEP – New Brunswick and Nova Scotia. We have already met with producers from these provinces and will continue to meet with them in an effort to convince them to join our organization. This will be one of CHEP's priorities in 2009.

So, I would like to offer my sincere thanks to Saskatchewan and Alberta for becoming a part of CHEP and I welcome them to their organization.

On a more disquieting note, let me talk a bit about the WTO. Once again, last July, the member countries tried, unsuccessfully, to conclude the Doha Development round of negotiations. WTO Director-General Pascal Lamy reiterated the desire to conclude the negotiations but countries were once again too far apart to sign on to a deal.

Remember, the WTO member countries have been trying for eight years to reach an agreement. So I find myself asking: why is it so difficult, at this point, to reach an agreement? Is it because the members expected too much out of the Doha round from the outset? Were they too ambitious with regards to a lowering of tariffs or total subsidies to support farmers? Was it the short time frame to implement all these new measures?

From my perspective, just asking these questions gives us a partial answer. I think that the WTO should revisit the ambitious goals it set itself from the outset of this round and strive for something more realistic. Or, maybe the best idea is to simply remove Agriculture from the WTO's fold entirely. Can a country be prevented, by international regulations, from producing its own agricultural commodities if it so chooses? These ideas will certainly not please the world's free traders but, who knows, perhaps it is the solution that will allow the WTO to conclude the Doha round.

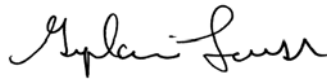
As for us, in cooperation with our SM5 colleagues we'll continue to monitor these negotiations very closely and continue to defend our Supply Management system — a system that benefits our entire industry, as well as the consumer.

Avian Influenza (AI) is another important issue. Following the outbreak of AI in Saskatchewan during the fall of 2007 the producer in question felt that the level of compensation offered by CFIA was inadequate and is currently pursuing a legal challenge in order to show that the market value of his birds established by the CFIA is wrong. The matter will be heard in early 2009 and we hope that the results will demonstrate to the CFIA that it must change the way it calculates the market value of our birds so that it will be fair. It is certainly a file that we will continue to monitor!

Steps to finalize our Federal-Provincial Agreement (FPA) are now essentially complete. The document will be sent to all signatories for review, and when this process is completed we can proceed to the signing of this new Agreement. It is important to mention that the producers from Saskatchewan and Alberta have indicated that they are prepared to be part of this Agreement and in so doing would be included as full members of the FPA.

In conclusion, I would like to thank all the Directors for their support and their confidence in me as the Chairman of the Canadian Hatching Egg Producers. I am proud to represent the producers at every opportunity.

Thank you.

A handwritten signature in black ink, appearing to read 'Gyslain Loyer'.

Gyslain Loyer  
Chair



A number of significant developments occurred during 2008 that will have a positive impact on CHEP's operations and the hatching egg industry in Canada. Nevertheless, a number of serious issues also remained in the forefront in 2008.

### **Membership**

Over the past several years, CHEP has had ongoing discussions with Saskatchewan hatching egg producers regarding their entry into the Agency. During CHEP's annual meetings in March, Saskatchewan took one step closer to becoming a full-fledged member of CHEP by signing an agreement that allows them to fully participate in the national supply management system for hatching eggs and the national agency.

The contract, which came into effect April 13, allows Saskatchewan to be full participants in all of CHEP's programs and activities. Saskatchewan will be allotted quota from the national agency in the same manner as member provinces and will benefit from all of CHEP's regulations and policies.

After leaving the Agency nearly four years ago over disagreements on how CHEP allocates production quota to it, Alberta also signed a service agreement with CHEP during the Agency's board meetings in November. The contract is effective January 1, 2009.

The agreement between Alberta and CHEP has the same provisions as the agreement with Saskatchewan and contains an allocation methodology that has been accepted by Alberta and CHEP. Both provinces will also benefit from all Agency programs including all on-farm food safety and animal health programs.

With the addition of these two provinces, CHEP now represents more than 90% of hatching egg production across Canada and producers in all provinces except for Atlantic Canada.

These contracts are interim steps for both Saskatchewan and Alberta boards in becoming official members to CHEP and both have signalled their intention to sign onto CHEP's new Federal-Provincial Agreement (FPA).

### **CHEP Proclamation**

At our July meeting, CHEP directors agreed to make changes to our Proclamation to allow the Canadian Hatchery Federation (CHF) to name one of its members as an alternate director on CHEP. This will provide the CHF with the same representation at the board table as other provincial members. The CHF will be able to name an alternate director once this amendment to our Proclamation is approved by federal and provincial governments.

CHEP's new FPA was finalized late in the year and was being reviewed by legal counsel to ensure completeness and consistency. Since Alberta and Saskatchewan producer boards have signalled their intent to sign the new FPA, the version that is circulated to all provincial boards and governments will include these provinces as members of CHEP.

**Avian Influenza (AI) Surveillance**

As part of a larger multi-level, disease surveillance program, the Canadian Food Inspection Agency (CFIA) introduced its on-farm AI surveillance program in the fall. Poultry flocks were randomly selected from across Canada and tested for the AI virus. The program is designed to determine the status of AI in Canadian poultry flocks.

The surveillance program comprised of a sample of 800 flocks with a focus on longer-lived birds such as turkeys, roaster and egg laying birds. By the end of the year, CFIA had tested most of the flocks, including 173 samples from egg-laying flocks, all with negative results.

Once the sampling is complete, the results will be reported to the World Organization for Animal Health (OIE) and trading partners around the world.

The scope and methodology of the surveillance program will be reviewed by CFIA in 2009, although there have been suggestions that CFIA would like to implement regular AI testing of broiler breeder flocks in the near future.

By and large, producers have been cooperative with the testing but have expressed their concerns over the level of compensation if the flocks needed to be culled.

**Standard Operating Procedures**

Standard Operating Procedures have been developed for the cleaning and disinfecting of broiler breeder barns. These procedures are an amalgamation of the procedures developed by the Canadian Food Inspection Agency (CFIA) and those developed for broiler breeders. All critical elements from the CFIA's procedures have been incorporated into the Standard Operating Procedures for broiler breeders.

The purpose of having these procedures is to assist producers in the event that avian influenza strikes their operation. Cleaning and disinfecting of the premises is a detailed process. It is hoped that having procedures prepared in advance will ease some of the stress that will be associated with this process.

At the end of October 2008, the Standard Operating Procedures were sent to the CFIA for review. Some minor changes were made to the procedures as per the recommendations from the CFIA. Once the final review has been received, these procedures will be distributed to the provincial boards.

It is important to remember that these procedures will need to be adapted to the conditions that exist on each producer's farm. While it is hoped that modifications will be minimal, it is important that the producer review the procedures carefully. Final approval of the cleaning and disinfecting procedures will occur after the first site assessment of the infected property by the CFIA Cleaning and Disinfecting unit and the producer. The issues will be discussed and the producer will then submit their plan/list of how they will meet the requirements.



### **Compensation**

Ever since the CFIA enacted the new compensation maximums payable for broiler breeder flocks ordered destroyed, CHEP has been working persistently to rectify the problems with both the maximum values established and the costing methodology used to calculate the values for broiler breeders.

The new maximum value for broiler breeders has fallen to \$24/bird from a previous level of \$33. This decrease is due to CFIA's choice to define market value as the cost to produce the bird with no regard to the value of the hatching egg or the revenue potential of broiler breeders. This problem was highlighted in 2007 when a Saskatchewan hatching egg producer received about half of what we believe is fair market value for his birds ordered destroyed by the CFIA. The current CFIA methodology would never allow a hatching egg producer to recover all costs or lost revenue.

The Saskatchewan producer has appealed his compensation payments to the federal court. We are hopeful that the judge will overturn his compensation payments and order CFIA to recognize the real market value of broiler breeders.

### **Business Risk Management Programs**

CHEP has also been working with Agriculture and Agri-food Canada (AAFC) officials to assess how their new suite of business risk management programs can assist producers who face depopulation of their flocks due to disease.

While these programs could be helpful, each have shortfalls. As examples, supply management producers are not eligible to participate in the Agri-Invest program which insures farmers of other commodities against their first 15% of revenue losses. Supply managed producers must face a loss of at least 30% before being eligible for any federal program assistance. It is CHEP's position that there should be no distinction between farmers of supply managed and non-supply managed commodities when it comes to government assistance in times of disease outbreak. We will continue to work with the government to change this eligibility rule.

AAFC's new Agri-Recovery program has been designed to assist producers who face natural disasters and AAFC officials have indicated that an AI outbreak, even on a single farm, can qualify for this program. Its intent is to cover costs and losses not captured through the other business risk management programs and AAFC has cited cleaning and disinfecting costs as an example of one cost that could qualify under the Agri-Recovery program. However, the Agri-Recovery program is very ad hoc in nature and determining whether an incident is a disaster or not will depend on the judgement call of both the provincial and federal departments of Agriculture. Time will tell how this program will address producers' needs.

## WTO

As usual, the WTO negotiations remained the top priority for CHEP during the year. It worked tirelessly with the other national supply management agencies throughout the year at the national and international levels to safeguard the interests of supply management and ensure that any results from a WTO trade agreement have no negative consequences to our producers.

By the end of the year, the WTO agriculture trade negotiations chairman proposed a set of modalities that would negatively impact supply management by increasing market access levels and reducing over-quota tariff protection. The Canadian government rejected the text relating to supply management and continued to push its balanced trade position, which include no cuts in over-quota tariffs and no increases in market access for supply-managed commodities. Further, the government reiterated its position and support for supply management in its throne speech in November.

Although the WTO failed to reach an agreement on modalities this year, there will be renewed efforts to reach an agreement in 2009. In the intervening period, we will continue to work with the Canadian Government to defend and promote its balanced trade position at the WTO.

## New Offices

After 10 years in the same location and suffering from crowded conditions and a less than ideal working environment, CHEP, along with the Egg Farmers of Canada, Canadian Federation of Agriculture and Dairy Farmers of Canada, purchased a building and moved into the remodelled facilities in August 2008.

The new building, on the edge of the downtown core, is a vast improvement over the previous location and contains functional workplaces and state of the art work meeting facilities. The new building also provides CHEP with the much needed additional space it required to operate effectively.

Sincerely,



Errol Halkai  
General Manager, CHEP



“To provide the Canadian chicken industry with hatching eggs that meet or exceed expectations for safety, quality, animal husbandry and environmental stewardship. A commitment to provide hatching eggs that meet the need of the Canadian market place while ensuring fair returns to its members and support stable, consistent and profitable growth for all stakeholders.”

#### **CHEP Board of Directors in 2008**

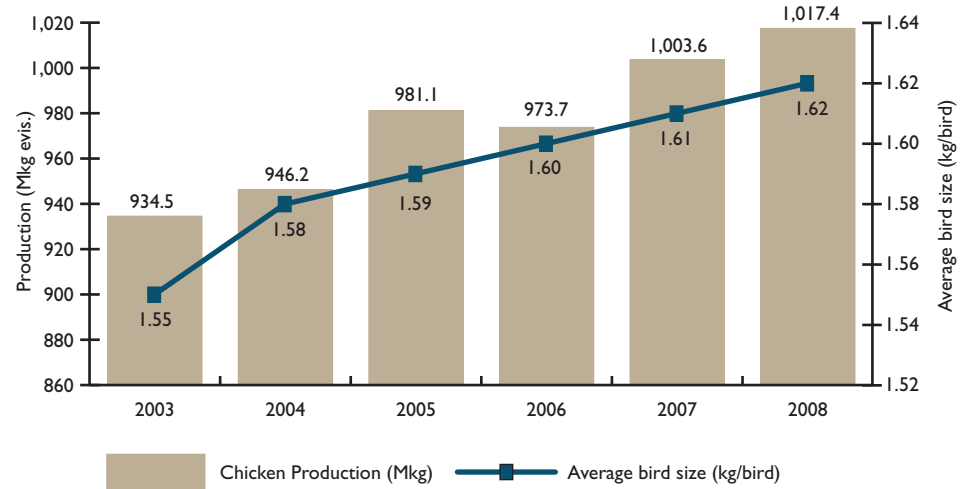


*From left to right: Roy White, Saskatchewan; Chris den Hertog, British Columbia; Gyslain Loyer, Chair, Quebec; Jack Greydanus, Vice Chair, Ontario; Tom Fleming, CHF Representative; Bernie Friesen, Manitoba*

By the end of 2008, the hatching egg industry faced softening market conditions and growing marketplace uncertainty caused by the emergence of a global financial crisis. In response, CHEP's final allocations were promptly reduced in July to deal with the aggressive cuts in chicken production allocations planned for the latter part of the year.

In 2008, chicken meat production in Canada reached 1,017.4 Mkg (evis.), an increase of 1.4% above the 2007 levels, while the number of birds slaughtered increased by only 0.4%. While CHEP had initially estimated that chicken production in 2008 would only reach 1,002 Mkg, it assessed the market conditions throughout the year and in the end, established its final allocations for 2008 based on a chicken production level of 1,019.2 Mkg, which was 1.8 Mkg above actual production for the year. This difference was largely due to a greater than expected reduction in the chicken production allocation during the last two months of the year.

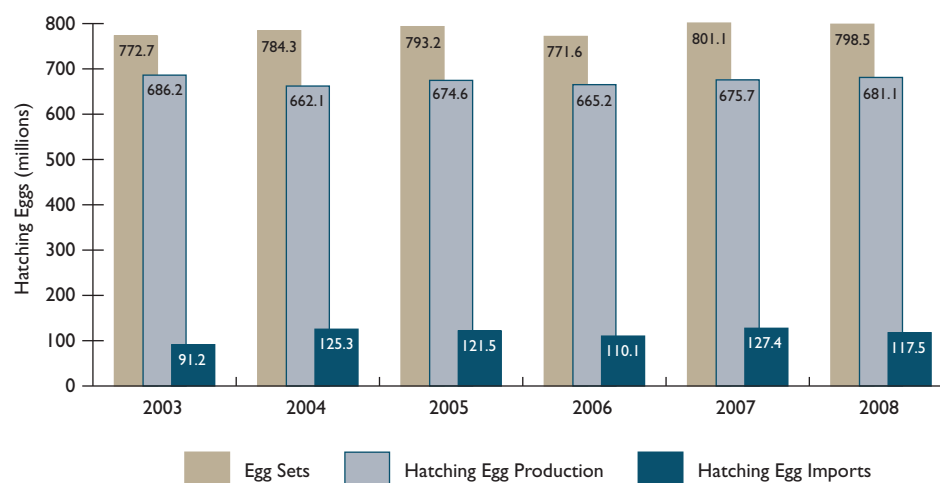
**Canadian Chicken Production (2003-2008)**



In 2008, Canadian hatcheries set a total of 798.5 million hatching eggs, a decrease of 0.3% from 2007. Domestic hatching egg production reached 681.1 million eggs in 2008, an increase of 0.8% from 2007, due to the return to full production capacity in Saskatchewan in the latter half of the year as it recovered from the Avian Influenza (AI) incident in one of its hatching egg facilities in 2007. As a result of higher domestic production and softening demand, hatching egg imports declined by 7.8% from 2007, totaling 117.5 million eggs for the year. The number of hatching eggs exported fell dramatically in 2008, as fewer than 200,000 eggs were shipped out of the country, down from more than 2 million eggs in 2007 and 3.7 million eggs in 2006.

Overall, Canadian hatching egg production reached 98.0% of CHEP's 2008 final allocation of 694.8 million eggs.

## Canadian Broiler Hatching Egg Statistics (2003-2008)



Despite reduced chicken production allocations in Periods A-87 and A-88, a small number of hatcheries in Canada still required supplementary imports to meet their requirements. By the end of the year, hatcheries in B.C. and Quebec had imported a total of 1.2 million hatching eggs, down significantly from the 12.4 million hatching eggs that entered Canada as supplemental imports in 2007 when a shortfall was created by the loss of production capacity in Saskatchewan due to the AI incident.

Table I – 2008 Supplemental Imports

	Supplemental Import Requests	Domestic Product Sourced <sup>1</sup>	Approved Supplemental Imports <sup>2</sup>	Actual Supplemental Imports
<b>Province</b>	<b>broiler hatching eggs</b>			
B.C.	900,000	288,000	612,000	612,000
Manitoba	0	0	0	0
Ontario	0	0	0	0
Quebec	732,000	54,000	588,000	588,000
<b>Total</b>	<b>1,632,000</b>	<b>342,000</b>	<b>1,200,000</b>	<b>1,200,000</b>

<sup>1</sup> Includes both domestic product and unused import permits used to fill requests

<sup>2</sup> As approved by the EICB

Sources: CHEP, EICB

## 2008 Provincial Hatching Egg Production

Overall, the production of hatching eggs in Canada expanded by 0.8% from 2007. Most provinces registered increases in production, led by Quebec (3.4%), followed by Manitoba and Saskatchewan, whose growth rates over 2007 reached 2.4% and 1.5%, respectively. In contrast, Ontario decreased hatching egg production by (-0.3%), while Alberta and the Maritime provinces each registered decreases of (-1.0%).

For Quebec, lower hatchability (-0.7%) and a relatively large increase in chicken production (2.5%), allowed for a strong increase in overall hatching egg production in that province. Similar factors led to Manitoba's production increase, through a reduction in hatchability (-2.7%) along with growth in chicken production (1.2%), while Saskatchewan's growth is largely explained by its full recovery following the AI incident in September 2007. Regarding Alberta and the Maritimes, reductions in hatching egg production were largely attributed to increases in the average weights of their marketed broilers, at 1.9% and 2.1%, respectively, despite significant drops to their total imports for the year.

**Table 2 – Provincial Hatching Egg Production<sup>1,2</sup>** (million eggs)

Year	B.C.	Alta.	Sask.	Man.	Ont.	Que.	Maritimes	Canada
2008	105.5	73.7	24.2	33.0	198.5	186.8	59.5	681.1
2007	105.4	74.4	23.8	32.3	199.0	180.7	60.1	675.7
2006	103.6	70.8	24.4	32.5	196.2	179.3	58.4	665.2
2005	89.3	75.3	25.4	31.8	207.5	187.5	57.8	674.6
<b>% Change</b>								
08/07	0.1	(1.0)	1.5	2.4	(0.3)	3.4	(1.0)	0.8
07/06	1.7	5.2	(2.5)	(0.8)	1.4	0.8	3.0	1.6
06/05	16.1	(6.0)	(3.9)	2.3	(5.4)	(4.4)	0.9	(1.4)

<sup>1</sup> Production excludes hatching egg imports and includes hatching egg exports

<sup>2</sup> Unaudited provincial production figures

Sources: CHER, AAFC

Overall, the modest expansion of hatching egg production in 2008 is a reflection of scaled down chicken production in the latter part of the year. The national hatchability rate fell to 81.3%, down 0.9% from 2007, while the average weight of broilers marketed in Canada rose by 1.0% to 1.62 kg per bird (eviscerated). Cuts to the chicken production allocations in Periods A-87 and A-88 reduced the need for hatching egg and chick imports, which fell by a combined 3.0% in 2008.

**Table 3 – Selected Factors Impacting Hatching Egg Production (2008)**

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	Atlantic	Canada
<b>Hatchability</b>								
(%)	81.7	77.7	79.7	78.7	82.5	81.8	80.8	81.3
% change 08/07	1.5	(1.0)	(5.4)	(2.7)	(1.4)	(0.7)	(0.5)	(0.9)
<b>Total Imports<sup>1</sup></b>								
(000 eggs)	23,059	4,562	10,801	6,953	48,110	45,521	4,021	143,027
% change 08/07	(9.0)	(27.1)	25.9	0.8	9.6	(12.1)	(13.9)	(3.0)
<b>Chicken Production</b>								
(Mkg evis.)	157.4	89.1	38.7	42.3	330.1	280.2	79.7	1,017.4
% change 08/07	1.9	0.9	0.4	1.2	0.4	2.5	1.3	1.4
<b>Avg. weight of Broilers</b>								
(kg evis.)	1.58	1.65	1.53	1.46	1.65	1.67	1.54	1.62
% change 08/07	1.1	1.9	(2.1)	1.6	0.5	1.4	2.1	1.0
<b>Chicken Production</b>								
Market Share (%)	15.5	8.8	3.8	4.2	32.4	27.5	7.8	100.0
% change 08/07	0.5	(0.5)	(1.0)	(0.2)	(0.9)	1.1	(0.1)	–

Sources: Hatchability – CHEP; Imports – AAFC; Chicken Production – CFC

<sup>1</sup> Unaudited data used to calculate hatchability and total imports**2008 Farm Cash Receipts and Prices Paid to Producers per Province**

In 2008, total farm cash receipts earned by hatching egg producers rose by 11.5% to a total of \$233.3 million, marking the second consecutive year in which farm cash receipts grew by more than 11%. The large increase was due to considerably higher feed and energy costs in the first half of 2008 coupled with the modest increase in overall hatching egg production during the year.

All member provinces saw the average annual price paid to its hatching egg producers rise by nearly 9%, once again reflecting higher feed and energy costs throughout Canada.

**Table 4 – 2008 Farm Cash Receipts and Producer Prices in Member Provinces**

	Farm Cash Receipts (2008) <sup>1</sup>		Hatching Egg Producer Prices	
	\$ 000	% change 08/07	¢ per saleable chick (2008 average)	% change 08/07
<b>British Columbia</b>	40,198	11.3	47.88	9.2
<b>Saskatchewan</b>	8,735	8.6	45.19	7.1
<b>Manitoba</b>	11,538	13.7	43.92	9.3
<b>Ontario</b>	64,764	10.7	40.97	9.3
<b>Quebec</b>	61,830	14.9	41.57	9.1
<b>Canada</b>	<b>233,340</b>	<b>11.5</b>	<b>43.76</b>	<b>8.6</b>

<sup>1</sup> Unaudited data used to calculate FCR

Source: CHEP

The final assessment for over and underproduction for 2007 was presented by CHEP staff during its summer meeting in July. Based on the data outlined in Table 5, CHEP member provinces that encountered production levels below 98% of the 2007 allocations included Manitoba (97.86%), Ontario (96.26%) and Quebec (97.39%), while British Columbia finished the year close to full utilization at 99.42%.

British Columbia's 2007 production level represented a significant improvement from the 95% utilization rate of its 2006 allocations, despite the imports of nearly 4.4 million hatching eggs into the province through supplemental import permits in 2007. Strong growth in chicken production in 2007 (+5.3%) combined with lower hatchability (-0.8%) from the previous year helped the province bring its production more in line with its national allocations, which also signaled the full recovery of that province's hatching egg production capacity after the AI outbreak in 2004.

The final hatching egg production level in Manitoba almost reached 100% of its 2007 allocations. However, early in the year, it leased 500,000 hatching egg quota from Ontario and Quebec on expectations that it may exceed its 2007 allocation. Taking this lease into account, Manitoba's final quota utilization level dipped just below the 98% mark.

In Ontario, the quota utilization rate of 96.26% achieved in 2007 was an improvement from the 94.17% it produced the previous year. Factors behind Ontario's production levels being closer to national allocations included a marginal decrease in its hatchability (-0.5%) as well as the lease of nearly 353,000 hatching egg quota to Manitoba as part of the 2007 quota lease pool process.

Quebec's quota utilization rate equaled 97.39% in 2007, which was a slight decrease from the 98.35% it produced from its 2006 final allocations. This decrease was largely due to heavier imports entering Quebec in 2007, with as many as 6 million hatching eggs arriving through supplemental imports that year alone. Quebec's utilization rate also benefitted from the lease of nearly 147,000 hatching egg quota to Manitoba as part of the 2007 quota lease pool process.

In 2007, there was no overproduction recorded, therefore no penalties were assessed.

**Table 5 – 2007 LDA Production and Allocations by Province**

Province	Production <sup>1</sup> (000 eggs)	Allocation <sup>2</sup> (000 eggs)	Utilization %	Quota Leased (000 eggs)	Final % Utilization
British Columbia	105,388	106,001	99.42	0	99.42
Manitoba	32,262	32,466	99.37	500	97.86
Ontario	199,017	207,104	96.10	-353	96.26
Quebec	176,477	181,354	97.31	-147	97.39

<sup>1</sup> LDA production excludes hatching egg imports and chick exports

<sup>2</sup> 2007 Final Allocations established July 12, 2007

Source: CHEP





2008 has been a rewarding year as the new chair of the CBHEPA. To date, it has been an exciting journey to learn how important this association is as an information outlet to all hatching egg producers.

One program the Association is proud of is the student programs available to all producers' families. These programs are designed to best suit individuals of all age groups. Included are the Student Exchange Program, the Young Farmers Program and the popular Broiler Breeder Scholarship Program. To date we have supported a large number of students in these programs.

Producers and their children have expressed appreciation for these programs and they will continue to be important programs for the industry.

Margaret MacKenzie of the University of Alberta was the recipient of the 2008 CBHEPA Broiler Breeder Scholarship for her research on: *"Breeder Parent Age Effects on Fertility, Embryonic Mortality and Broiler Chick Quality"*. She will be presenting her findings at the Canadian Hatching Egg Producer's (CHEP) Annual Meeting in Ottawa on March 25, 2009. You can also view her analysis on CHEP's website at [www.chep-poic.ca](http://www.chep-poic.ca)

The CHEP summer meeting was held in Kelowna, British Columbia in July where I and my wife Karin were honoured to receive CBHEPA's "2007 Producer of the Year" award.

Two years ago a drawing contest was held for the first time and all producers' families were invited to submit Christmas-themed drawings. This has turned out to be a huge hit. It is wonderful to review the proud artwork submitted by the children, grandchildren, nieces and nephews of producers. Twelve drawings were selected during the CHEP summer meeting and these drawings were made into Christmas cards the Agency uses during the holiday season. A sample of these drawings can be found at the end of my report.

I would like to thank the Association members for their work and support.



Calvin and Karin Breukelman  
Prairie Lane Poultry, British Columbia



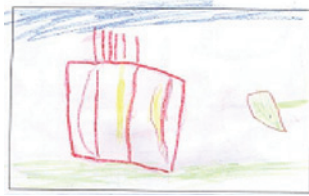
Broiler Breeder Scholarship Recipient  
Margaret MacKenzie from the University of Alberta

Sincerely,

Calvin Breukelman  
Chair, CBHEPA



**The winners of the CBHEPA Drawing Contest for 2008**



Thaya Neels, age 3  
British Columbia



Ruth Bakker, age 3  
British Columbia



Lauri-Ève Trottier, age 4  
Quebec



Jared Neels, age 4  
British Columbia



Leah Bakker, age 5  
British Columbia



Hannah Neels, age 6  
British Columbia



Meg-Anne Trottier, age 7  
Quebec



Jada Wiebe, age 8  
British Columbia



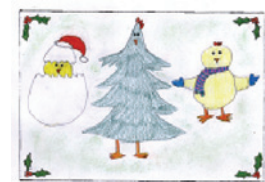
Alex-Ann Arbour, age 10  
Quebec



Breagan Klassen, age 10  
Manitoba



Mélina Arbour, age 12  
Quebec



Tynisha Klassen, age 12  
Manitoba



The Advisory Committee met three times in 2008 to discuss factors shaping market conditions and to review the 2008 and 2009 chicken demands. The chicken industry entered the year facing the continuing challenges of rising production costs and soft market conditions, but these challenges quickly evolved into uncertainty as a global financial crisis began to take hold during the latter half of the year.

At its March meeting, the Advisory Committee warned of worsening market conditions: rising feed and energy costs were further driving up production costs, rising retail prices for chicken were widening an existing price gap above competing meats, and overproduction of chicken was driving up storage stocks. Despite these trends, the Committee remained confident that rationalization of production would guide the Canadian chicken industry to finish the year with stable wholesale prices and chicken inventories. With this in mind, the Committee updated its projection for chicken production in 2008 to 1,020 Mkg. In setting its initial projection for 2009, the Committee believed that stability would be maintained as higher grain feed prices would force less production of competing meats, allowing chicken to capture greater market share amidst potentially declining consumer demand. The Committee set its projection at 1,040 Mkg, an increase of 2.0% over the revised 2008 chicken demand.

By the July meeting, the Committee had learned of further challenges to the industry including lower processor and further processor margins, slowing chicken imports and softening growth forecasts in the food service industry. Added to this was the growing uncertainty of future consumer demand as meat prices were expected to rise in the coming year. The Committee continued to support the notion of contracting production in an effort to better realign supply with demand and to help restore processor and further processor margins. During this time, the Chicken Farmers of Canada lowered its production allocation for Period A-87 (September 14 – November 8, 2008) by 5.8 Mkg in response to a request from processors and further processors. It was within this context that the Committee projected that the final 2008 chicken production level would equal 1,019.2 Mkg, or 1.5% above 2007 production levels. In its first review of the 2009 chicken market, the Committee remained cautious as it recommended a target of 1,030 Mkg, an increase of 1.0% above 2008 chicken production.

At its November meeting, the Committee recognized that marketplace uncertainty would intensify due to the emergence of the global financial crisis. The Committee agreed that available market signals offered little help in predicting the changes in chicken demand for 2009, as the industry was facing the possibility of declining per capita consumption despite lower feed and energy prices coupled with aggressive cuts to chicken production allocations. The Committee agreed that the prospects for growth in 2009 would depend solely on how consumers would react to the looming economic crisis. The Committee agreed to take a conservative approach and estimated no growth in chicken demand in 2009, thus preventing a situation where drastic cuts in allocations would be needed should the target be set too high. As such, the Advisory Committee recommended a revised chicken production level for 2009 of 1,019 Mkg, down 11 Mkg from the previous target of 1,030 Mkg and unchanged from the final chicken demand for 2008.

The decisions taken by the Advisory Committee in 2008 illustrate why it is so important to use the most current available information and market signals to help the Committee act responsively and responsibly to make certain that the needs of the Canadian chicken market are met. This is a critical part of supply management and helps us achieve the best results for the hatching egg industry.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Jack Greydanus'. The signature is fluid and cursive, with a large, stylized 'J' and 'G'.

Jack Greydanus  
Chair, Advisory Committee



The Finance Committee met on three occasions throughout 2008 to review CHEP's financial situation and budgets as well as update the Agency's financial policies as required.

For 2008, revenues equalled \$1,328,000, representing an increase of \$44,000 from the previous year while expenditures rose by \$244,000 to reach \$1,420,000. The increase in revenue was due to increased hatching egg production which included the addition of hatching egg production revenues from Saskatchewan. 2008 expenses were higher due to a number of factors, namely:

- the creation of the Animal Health position
- renovations of the building purchased in 2007
- continued involvement in WTO during the year
- efforts to ensure that hatching egg producers receive fair government compensation under the *Health of Animals Act*.

In November, the Finance Committee presented a budget for 2009 which included a projected deficit of \$51,000. 2009 revenues are estimated to increase by \$254,000 due to an increase in the national levy and additional levy revenues from Alberta, which signed a service contract with CHEP effective January 1, 2009.

Expenditures during 2009 are expected to increase by \$74,000 or 5% primarily due to the additional meeting expenses.

The building that the Agency, along with Egg Farmers of Canada, Dairy Farmers of Canada and Canadian Federation of Agriculture, purchased in November 2007 underwent significant renovations and was ready for occupation in August 2008. The new office space and facilities are being enjoyed by all personnel and CHEP now owns a fully functional appreciating asset.

The Research Fund (created in 2001) continued in 2008 and was funded by a set aside of 0.1¢ per hatching egg to an annual maximum of \$60,000. Authorized research expenditures were charged to this fund and two projects administered by CHEP were finalized reducing outstanding commitments from \$28,750 to \$11,081.

At the Agency's Annual General meeting the firm of Raymond Chabot Grant Thornton was re-appointed to perform the 2008 year end audit.

Sincerely,

Tom Fleming  
Chair, Finance Committee



I am pleased as the Research Committee chair to provide a report on our 2008 activities. Each year we assess research priorities for our industry as well as support the Canadian Poultry Research Council (CPRC) as the national voice for poultry research. Our committee is also responsible for issues relating to CHEQ™, our on-farm food safety program.

#### **2008 CHEP Research Priorities**

- Food safety
- Environment
- Dark-meat utilization
- Control of Salmonella in broiler breeders through vaccination
- Production-based research.

#### **CPRC**

In 2008, the research focus was on the environment and novel feedstuffs for poultry. Seven projects totaling just over \$364,000 were approved by CPRC directors, to be submitted for additional matching funding through the National Sciences and Engineering Research Council (NSERC).

Following objectives of its strategic plan developed in 2007, the CPRC set out to increase communication about its activities, as well as expand research activities and partnerships with stakeholders. CPRC increased its communication efforts through Canadian Poultry magazine and the CPRC website ([www.cp-rc.ca](http://www.cp-rc.ca)) with regular articles on CPRC research programs and funding opportunities. The work continued on establishing a poultry welfare research cluster at the University of Guelph, which is expected to be staffed by an Agriculture and Agri-Food Canada (AAFC) scientist.

Another important event was the “Funding Poultry Research in Canada” hosted by CPRC in the fall. Stakeholders from producers, researchers, government and others sat down to talk about CPRC’s future role, and to review the current state of poultry research. One of the main outcomes was that CPRC should be taking a larger national role concerning poultry research in order to improve coordination, and to build on past success leveraging industry funds. Based on these findings, CPRC will continue working to increase the voice of poultry research in Canada in consultation with stakeholders.

The CPRC through its members continues to support poultry research programs and people in the areas of food safety and poultry health, welfare, avian gut microbiology, the environment and commodity-specific projects, as well as funding for post-graduate students interested in studying poultry.

It was a busy year of changes for the Canadian Hatching Egg Quality (CHEQ™) Program with a new logo, producer certificates, and work on changes to the program itself and its national management system. Our goal is to have CHEQ™ officially recognized by the CFIA, taking into consideration all aspects of the program including training, certification, program maintenance, auditing and auditing frequency. We continue to work in partnership with Agriculture and Agri-Food Canada’s Canadian Food Safety and Quality Program (CFSQP), which will be known as Growing Forward in the future.

Sincerely,

A handwritten signature in black ink that reads "Cheryl Firby". The script is fluid and cursive.

Cheryl Firby  
Chair, Research Committee





### **CHEP Alternates**

*From left to right: Dean Penner, Manitoba; Robert Massé, Quebec; Cheryl Firby, Ontario; Calvin Breukelman, British Columbia; Jeff Regier, Saskatchewan*



### **Provincial Managers**

*From left to right: Dave Cherniwchan, British Columbia; Wayne Hiltz, Manitoba; Pierre Belleau, Quebec; Bob Guy, Ontario  
Absent: Clinton Monchuk, Saskatchewan*



### **CHEP Staff**

*Clockwise from top to bottom: Victoria Sikur, Food Safety Officer; Errol Halkai, General Manager; Nicole Duval, Office Administrator; Kathleen Thompson, Animal Health Officer; Tim Nikita, Economist;  
Absent: Joy Edstron, Bookkeeper*

**Canadian Hatching Egg Producers /  
Les Producteurs d'oeufs d'incubation  
du Canada**

**Financial Statements  
December 31, 2008**

Auditors' Report	2 - 3
Financial Statements	
Revenue and Expenditure	4
Changes in Net Assets	5
Cash Flows	6
Financial Position	7
Notes to Financial Statements	8 - 13

**Raymond Chabot Grant Thornton**

S.E.N.C.R.L./LLP

2505 St-Laurent

Ottawa, Ontario K1H 1E4

Tel.: 613 236-2211

Fax: 613 236-6104

[www.rcgt.com](http://www.rcgt.com)

## Auditors' Report

To the Minister of Agriculture and Agri-Food, Government of Canada, the National Farm Products Council, and the members of the Canadian Hatching Egg Producers / Les Producteurs d'oeufs d'incubation du Canada

We have audited the statement of financial position of the Canadian Hatching Egg Producers / Les Producteurs d'oeufs d'incubation du Canada for the year ended December 31, 2008 and the statements of revenue and expenditure, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many agricultural products marketing agencies, the Agency derives revenue from levies charged to producers based on their marketings, the completeness of which is not susceptible of satisfactory audit verification. Due to the structure of the broiler hatching egg producers' levy, our verification of these revenues was limited to the amounts recorded in the accounts of the Agency and we were not able to determine whether any adjustments might be necessary to levy revenue, excess (deficiency) of revenue over expenditure, assets and net assets.

**Comptables agréés**  
Membre de Grant Thornton International Ltd.  
**Chartered Accountants**  
Member of Grant Thornton International Ltd.



In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of levy revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Canadian Hatching Egg Producers / Les Producteurs d'oeufs d'incubation du Canada as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Raymond Chabot Grant Thornton LLP*

Chartered Accountants,  
Licensed Public Accountants

Ottawa, Ontario  
February 9, 2009

# Canadian Hatching Egg Producers

## Revenue and Expenditure

Year ended December 31, 2008

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>Revenue</b>		
Administrative levies	1,250,363	1,192,788
Research levies	60,000	60,000
Interest	17,801	31,500
	<u>1,328,164</u>	<u>1,284,288</u>
<b>Expenditure</b>		
Advertising	4,132	5,847
Amortization of capital assets	15,697	4,065
Data verification	56,408	53,068
Directors' fees and participants' expenses	230,088	231,038
Fees	27,401	26,612
SM5 Geneva representative	12,278	14,027
WTO - coordinator	13,577	7,574
Interest and bank charges	1,062	980
Interpretation	42,658	45,196
Student programs	1,709	2,977
Meetings	22,351	29,016
Office	33,834	39,680
Animal Care	113,397	27,416
Postage, telephone and facsimile	15,880	12,618
Professional fees - legal	91,045	32,002
Professional fees - audit	15,000	10,250
Professional fees - other	11,008	15,118
Rent	21,234	25,317
Research	77,646	50,000
Salaries and benefits	382,132	379,815
Staff expenses	39,771	44,330
Translation	37,187	25,157
Web-site and server	4,768	14,592
International trade activities	133,017	78,856
Building operating costs	11,235	
Interest on long-term debt	5,145	
	<u>1,419,660</u>	<u>1,175,551</u>
<b>Excess (deficiency) of revenue over expenditure</b>	<u>(91,496)</u>	<u>108,737</u>

The accompanying notes are an integral part of the financial statements.

# Canadian Hatching Egg Producers

## Changes in Net Assets

Year ended December 31, 2008

	<b>2008</b>				<b>2007</b>
	<b>Invested in capital assets</b>	<b>Internally restricted for research purposes</b>	<b>Internally restricted for severance contingency</b>	<b>Unrestricted</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Net assets - beginning	47,496	38,750	175,228	870,865	1,132,339
Excess (deficiency) of revenue over expenditure	(15,697)	(17,646)		(58,153)	(91,496)
Net investment in capital assets	345,372			(345,372)	
Internally imposed restrictions (Note 8)			20,605	(20,605)	
Net assets - ending	377,171	21,104	195,833	446,735	1,040,843

The accompanying notes are an integral part of the financial statements.

# Canadian Hatching Egg Producers

## Cash Flows

Year ended December 31, 2008

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Excess (deficiency) of revenues over expenses	(91,496)	108,737
Non cash items:		
Amortization of capital assets	15,697	4,065
Changes in working capital items		
Accounts receivable - levies	7,662	(44,195)
Accounts receivable - other	(31,526)	(6,752)
Prepaid expenses	(34,250)	5,112
Accounts payable and accrued liabilities	8,330	28,777
Deferred contributions	(23,457)	(1,672)
Cash flows from operating activities	<u>(149,040)</u>	<u>94,072</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of capital assets	(301,485)	(406,202)
Disposal of investments	914,919	
Disposal of capital assets		900
Acquisition of investments	(467,941)	(41,131)
Cash flows from investing activities	<u>145,493</u>	<u>(446,433)</u>
<b>FINANCING ACTIVITIES</b>		
Long-term debt		367,316
Payment on long-term debt	(6,923)	(523)
Cash flows from financing activities	<u>(6,923)</u>	<u>366,793</u>
<b>Net increase (decrease) in cash</b>	<b>(10,470)</b>	<b>14,432</b>
Cash, beginning of year	<u>14,838</u>	<u>406</u>
Cash, end of year	<u><b>4,368</b></u>	<u><b>14,838</b></u>

The accompanying notes are an integral part of the financial statements.

# Canadian Hatching Egg Producers

## Financial Position

December 31, 2008

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>ASSETS</b>		
Current assets		
Cash	4,368	14,838
Investments (Note 4)	467,941	914,919
Accounts receivable - levies	272,683	280,345
Accounts receivable - other	67,480	35,954
Prepaid expenses	40,553	6,303
	<u>853,025</u>	1,252,359
Capital assets (Note 5)	<u>737,041</u>	414,289
	<u><b>1,590,066</b></u>	<u>1,666,648</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	151,604	106,310
Deferred contributions (Note 6)	37,749	61,206
Current portion of long-term debt	7,291	6,923
	<u>196,644</u>	174,439
Long-term debt (Note 7)	<u>352,579</u>	359,870
	<u><b>549,223</b></u>	534,309
<b>NET ASSETS</b>		
Invested in capital assets	377,171	47,496
Internally restricted for research purposes (Note 8)	21,104	38,750
Internally restricted for severance contingency (Note 8)	195,833	175,228
Unrestricted	446,735	870,865
	<u>1,040,843</u>	1,132,339
	<u><b>1,590,066</b></u>	<u>1,666,648</u>

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# Canadian Hatching Egg Producers

## Notes to Financial Statements

December 31, 2008

---

### **1 - GOVERNING STATUTES AND NATURE OF OPERATIONS**

The Agency is a statutory Agency created under the Farm Products Agencies Act.

The mission of the Agency is to establish a comprehensive broiler hatching egg marketing program for Canada in order to ensure a strong, efficient and competitive production and marketing industry for broiler hatching eggs in Canada and a dependable supply of the product to the chicken industry.

The Canadian Hatching Egg Producers is a non-profit organization within the meaning of the Income Tax Act and is exempt from income taxes.

### **2 - CHANGES IN ACCOUNTING POLICIES**

On January 1, 2008, in accordance with the applicable transitional provisions, the Agency applied the new recommendations of Section 1400, "General Standards of Financial Statement Presentation", of the Canadian Institute of Chartered Accountants' Handbook, dealing with the going concern assumption. The new recommendations, which are effective for fiscal years beginning on or after January 1, 2008, require management to make an assessment of the Agency's ability to continue as a going concern over a period which is at least, but is not limited to, twelve months from the balance sheet date. The new requirements only address disclosures and have no impact on the Agency's financial results.

On January 1, 2008, in accordance with the applicable transitional provisions, the Agency applied the recommendations of Section 1535, "Capital Disclosures", of the Canadian Institute of Chartered Accountants' Handbook. This new section, establishes standards for disclosing information about the Agency's capital and how it is managed. The new accounting standard only addresses disclosures and has no impact on the Agency's financial results.

### **3 - ACCOUNTING POLICIES**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles.

#### **Basis of presentation**

The financial statements are prepared using the historical cost method, except for certain financial instruments that are recognized at fair value. No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of the fair value.

#### **Accounting estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Agency may undertake in the future. Actual results may differ from these estimates.

# Canadian Hatching Egg Producers

## Notes to Financial Statements

December 31, 2008

---

### 3 - ACCOUNTING POLICIES (Continued)

#### Financial Instruments

The Agency has chosen to apply the recommendations of Section 3861, "Financial Instruments – Disclosure and Presentation", of the Canadian Institute of Chartered Accountants' Handbook with respect to the presentation and disclosure of financial instruments.

Financial assets and liabilities are classified, measured and recognized as follows.

#### *Held-for-trading financial assets*

Cash is classified as a held-for-trading financial asset and is measured at fair value.

#### *Available-for-sale financial assets*

Short-term investments are classified as available for sale financial assets and are measured at their fair value.

Unrealized gains or losses relating to available-for-sale financial assets where investment income is not externally restricted are recognized in the statement of changes in net assets until these gains or losses are realized or a decline in value of the financial asset is other than temporary. When investments are sold or sustain a decline in value that is other than temporary, the related accumulated gains or losses, which are presented in the statement of changes in net assets, are then reclassified in the statement of revenue and expenditure under net investment income.

#### *Loans and receivables and other financial liabilities*

Accounts receivable are classified as loans and receivables. They are measured at amortized cost, which is generally the initially recognized amount, less any allowance for doubtful accounts. Accounts payable, accrued liabilities and the long-term debt are classified as other financial liabilities. They are valued at amortized cost using the effective interest method.

#### Revenue recognition

The Agency receives levies based on the number of hatching eggs marketing in intra-provincial, inter-provincial and export trade. Levies are recorded as revenue in the period earned.

The Agency follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Other sources of revenue are recorded using the accrual basis of accounting.

# Canadian Hatching Egg Producers

## Notes to Financial Statements

December 31, 2008

### 3 - ACCOUNTING POLICIES (Continued)

#### Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives according to the straight-line method at the following annual rates:

	Rates
Building	2.5%
Office furniture and equipment	10%
Electronic equipment	33%

### 4 - INVESTMENTS

	2008	2007
	\$	\$
Guaranteed investment certificates, bearing variable interest rates linked to the prime rate, maturing December 31, 2009	<b>467,941</b>	914,919

### 5 - CAPITAL ASSETS

	2008		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	54,135		54,135
Building	646,349	5,386	640,963
Office furniture and equipment	50,662	16,556	34,106
Electronic equipment	55,757	47,920	7,837
	<b>806,903</b>	<b>69,862</b>	<b>737,041</b>
	2007		
	Cost	Accumulated amortization	Net
	\$	\$	\$
Land	54,135		54,135
Building	347,234		347,234
Office furniture and equipment	92,153	81,224	10,929
Electronic equipment	49,178	47,187	1,991
	<b>542,700</b>	<b>128,411</b>	<b>414,289</b>



# Canadian Hatching Egg Producers

## Notes to Financial Statements

December 31, 2008

### 6 - DEFERRED CONTRIBUTIONS

Deferred contributions represent restricted funding received in excess of related expenses incurred.

	<u>2008</u>	<u>2007</u>
	\$	\$
Balance, beginning of year	61,206	62,878
Interest earned in the year	1,375	2,203
Expenses incurred	<u>(24,832)</u>	<u>(3,875)</u>
Balance, end of year	<u>37,749</u>	<u>61,206</u>

The deferred contributions balance represents the Agency's share of funds distributed with respect to the Vitamins Class Action Lawsuit. In accordance with the terms of distribution, the funds are to be expended towards "Food Safety and Flock Health in Canadian Broiler Breeder Production".

### 7 - LONG-TERM DEBT

	<u>2008</u>	<u>2007</u>
	\$	\$
Long-term debt maturing November 30, 2017, with an interest rate of 5.68%, monthly payments of \$2,296, secured by the building	359,870	366,793
Less: current portion	<u>7,291</u>	<u>6,923</u>
	<u>352,579</u>	<u>359,870</u>

Instalments on the long-term debt for the next 5 years are \$27,544 from 2009 to 2013.

### 8 - INTERNALLY IMPOSED RESTRICTIONS.

The Board of Directors have internally restricted \$20,605 in 2008 (2007 - \$19,295) towards severance contingency and \$23 in 2008 (2007 - \$10,000) for research purposes.

# Canadian Hatching Egg Producers

## Notes to Financial Statements

December 31, 2008

### 9 - COMMITMENTS

The Agency has entered into agreements expiring December 2009 and August 2012 which calls for payments of \$25,500 for the rental of office equipment and information technology support. Minimum payments for the next five years are \$12,000 in 2009, \$4,000 in 2010, 2011 and 2012, and \$1,500 in 2013.

#### **Research**

The Agency has residual financial commitments for the following research projects:

Laval University - Improvement of broiler breeder male fertility	<u>\$</u> <u>7,500</u>
University of Alberta - Effects of dietary selenium source on the fertility and hatchability of broiler eggs	<u>3,581</u>
	<u><u>11,081</u></u>

### 10 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES, AND FINANCIAL RISKS

#### **Financial risk management objectives and policies**

The Agency is exposed to various financial risks resulting from both its operating and investing activities. The Agency's management manages financial risks.

The Agency does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

#### **Financial risks**

The Agency's main financial risk exposure and its financial risk management policies are as follows.

##### *Interest rate risk*

The Agency has contracted short-term investments bearing a floating rate of interest. These financial instruments expose the Agency to risk in the event market interest rates fluctuate.

The Agency's other financial assets and liabilities do not comprise any interest rate risk since they either bear interest at fixed rates or do not bear interest.

# Canadian Hatching Egg Producers

## Notes to Financial Statements

December 31, 2008

---

### **11 - CAPITAL MANAGEMENT**

The Agency's objectives when managing capital are:

- To safeguard the Agency's ability to continue as a going concern;
- To meet its financial obligations.

The Agency manages its capital mainly by internally restricting a portion of net assets to cover designated activities such as research, and to provide capital for potential future adverse situations, such as a severance contingency. Moreover, an important part of its capital management consists in collecting levies from various sources while at the same time controlling expenditures to closely match revenues.

In order to maintain or to adjust its capital structure, the Agency may have to modify its forecast expenses for the realization of certain of its activities.

The Agency is not subject to any externally imposed capital requirements.

### **12 - FUTURE ACCOUNTING STANDARDS**

In September 2008, the Canadian Institute of Chartered Accountants (CICA) amended the introduction to accounting standards that apply only to not-for-profit organizations and several sections in the 4400 series as well as consequential changes to other sections of the CICA Handbook. The main changes affect the following, in particular:

- Inclusion of not-for-profit organizations within the scope of sections 1540, "Cash Flow Statements", and 1751, "Interim Financial Statements";
- Elimination of the requirement to treat net assets invested in capital assets as a separate component of net assets;
- Amendments to clarify that revenues and expenses must be recognized and presented on a gross basis when the not-for-profit organization is acting as a principal in the transactions in question;
- Inclusion of additional guidance with respect to the appropriate use of the scope exemption in Section 4430, "Capital Assets Held by Not-for-profit Organizations", for smaller entities.

The CICA also published new Section 4470, "Disclosure of Allocated Expenses by Not-for-profit Organizations", which establishes disclosure standards for the not-for-profit organization that classifies its expenses by function and allocates expenses to a number of functions to which the expenses relate.

These changes are effective for fiscal years beginning on or after January 1, 2009 and the Agency will implement them as of that date. The Agency's management is not able to measure the impact that the application of these changes will have on the financial statements.